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IN THE

Supreme Court of the United States

OCTOBER TERM, 1972.

No. 72-831

UNARCO INDUSTRIES, INC. AND OVERHEAD DOOR CORPORATION,

Petitioners,

vs.

KELLEY COMPANY, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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December 4, 1972.

THE GUNTHORP-WARREN PRINTING COMPANY, CHICAGO

INDEX.

	PAGE
Opinion Below	1
Jurisdiction	2
Questions Presented	2
Statutory Provisions Involved	2
Statement of the Case	3
Reasons for Granting the Writ	6
1. The Decision Below Conflicts with the Decisions of State Supreme and Appellate Courts as to Whether Federal or State Law Applies to Determine the Validity of an Assignment of a Patent License Without the Consent of the Licensor	6
2. The Decision Below Conflicts with a Decision of the Court on the Question of the Assignability of a Patent License Where There Is a Sale of a Business	11
3. The Decision Below Conflicts with the Decision of Another Court of Appeals as to Whether Federal and State Law Should be Applied to Determine the Validity of the Assignment of a Nonexclusive Patent License	14
4. The Decision Below Conflicts with Other Decisions of the Seventh Circuit as to Whether an Assignment of a License in Connection with the Sale of a Business Is Valid Without the Consent of the Licensor	15
Conclusion	17
Appendix (Decision of District Court)	A1

CITATIONS.

Cases.

American Manufacturing Company of Texas v. Witter, 343 S. W. 2d 943 (Tex. Civ. App. 1961) 7

American Well Works Co. v. Layne & Bowler Co., 241 U. S. 257 (1916) 14

Broxham v. Borden's Farm Products Co. of Illinois, 53 F. 2d 946 (7th Cir. 1931) 8

Brunswick Corporation v. Chrysler Corporation, 408 F. 2d 335 (7th Cir. 1969) 15

Carlock v. LaSalle Extension University, 185 F. 2d 594, 595 (7th Cir. 1950) 9

J. R. Clark v. Jones & Laughlin Steel Corp., 288 F. 2d 279 (7th Cir. 1961), cert. denied, 368 U. S. 828 (1961) 15

Erie Railroad Company v. Tompkins, 304 U. S. 64 (1938) 6, 11

Farmland Irrigation Company v. Dopplmaier, 308 P. 2d 732, 42 Cal. 2d 208 (1957) 6

First National Bank of Danville v. Taylor, 329 Ill. App. 49, 67 N. E. 2d 306 (1946) 8

In re Estate of Frayser, 401 Ill. 364, 82 N. E. 2d 633 (1948) 8

Hapgood v. Hewitt, 119 U. S. 226 (1886) 11

T. B. Harms Co. v. Eliscu, 339 F. 2d 823 (2d Cir. 1964), cert. denied, 381 U. S. 915 (1965) 14

Havana Press-Drill Co. v. Ashurst, 148 Ill. 115, 35 N. E. 873 (1893) 9

Lane & Bodley v. Locke, 150 U. S. 193 (1893) 11

Mallin v. Wenham, 209 Ill. 252, 70 N. E. 564 (1904) 9

Monarch Discount Co. v. Chesapeake & Ohio Ry. Co., 285 Ill. 233, 120 N. E. 743 (1918) 8

Neon Signal Devices, Inc. v. Alpha Claude Neon Corp., 54 F. 2d 793 (D. C. Pa. 1931) 13

Oliver, Finnie & Co. v. Rumford Chemical Works, 109 U. S. 75 (1883) 11

Papazian v. American Steel & Wire Co., 155 F. Supp. 111 (D. C. Ohio 1957) 13

Rhodes v. Ashurst, 176 Ill. 351, 52 N. E. 118 (1898) 9

Smith v. Preston, 170 Ill. 179, 48 N. E. 688 (1897) 9

State Street Furniture Co. v. Armour & Co., 259 Ill. App. 589 (1st Dist. 1931), aff'd, 345 Ill. 160, 177 N. E. 702 (1931) 9

Troy Iron and Nail Factory v. Corning, 55 U. S. 193 (1852) 11

Unarco Industries, Inc. v. Kelley Company, Inc., 465 F. 2d 1303 (7th Cir. 1972) 1, 6, 15

Wilson v. J. G. Wilson Corp., 241 F. 494 (D. C. Va. 1917) 13

OTHER AUTHORITIES.

Ellis, Patent & Licenses (3d Ed. Del.) § 419 13

Restatement of Contracts § 151(a) 13

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Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

The petitioners, Unarco Industries, Inc. and Overhead Door Corporation, respectfully pray that a writ of certiorari issue to review the judgment and opinions of the United States Court of Appeals for the Seventh Circuit entered in this proceeding on September 7, 1972.

OPINION BELOW.

The opinion of the Court of Appeals was reported at 465 F. 2d 1303 (7th Cir. 1972). The opinion of the District Court for the Northern District of Illinois, Eastern Division was not reported and appears in the Appendix hereto.

JURISDICTION.

The judgment of the Court of Appeals for the Seventh Circuit was entered on September 7, 1972. This petition for certiorari was filed within 90 days of September 7, 1972. This Court's jurisdiction is invoked under 28 U. S. C. § 1254(1).

QUESTIONS PRESENTED.

1. Whether federal common law or state law applies to determine the validity of an assignment of a nonexclusive patent license which was made without the consent of the licensor as a part of a sale of assets of an entire business.

2. Whether, assuming federal common law applies, the assignment of a nonexclusive patent license is valid without the consent of the licensor where

(a) The assignment was a part of the sale of assets of an entire business; and

(b) There was never any personal relationship between the licensor and licensee.

3. Whether, assuming state law applies, the law of the State of Illinois allows assignment of a nonexclusive patent license without the consent of the licensor in the context of an overall sale of assets of an entire business.

STATUTORY PROVISIONS INVOLVED.

There are no statutory provisions involved. However, the Seventh Circuit in determining that federal law applied cited Article 1, Section 8, Clause 8 of the United States Constitution and the Patent Act of 1952, 35 U. S. C. § 1 et seq.

STATEMENT OF THE CASE.

The cause was decided in favor of petitioners by the trial court on the basis of stipulated sets of facts, the deposition of Garrett Kelley, chairman of the board of respondent, and related deposition exhibits, and the briefs of the parties. With the exception of certain unsupported factual conclusions reached by the Seventh Circuit on the subjects of forebearance and the competitive relationship of these parties, there are no conflicts as to the factual background of this case.

Petitioner Unarco is an Illinois corporation having its principal place of busines in Chicago (Stip. ¶ 1). It is engaged in manufacture and warehousing of various products. For a number of years one of its businesses was the manufacture and sale of adjustable dockboards (Sup. Stip. ¶ 1). Adjustable dockboards are used at shipping and receiving docks to compensate for height variation between a loading dock and trucks, trailers or railroad cars (Kelley Dep. 4). In this field Unarco was a competitor of respondent which was also engaged in the manufacture and sale of adjustable dockboards (Stip. ¶¶ 5, 6; Kelley Dep. 5).

Both respondent and Unarco had patents relating to various features of dockboards (PX 1, 2, 3). Respondent claimed that Unarco's standard pit type dockboards infringed some of its patents, so in 1964 it filed a patent infringement action against Unarco in the United States District Court for the Middle District of Tennessee, Nashville Division.

In the course of the patent infringement litigation respondent and petitioner Unarco negotiated a settlement agreement which was executed in Chicago on November 30, 1967 (Complt. ¶ 7, Ans. ¶ 5). The settlement agreement provided for the dismissal of the infringement litigation on the basis that no injunctions would issue, that respondent would grant Unarco a nonexclusive license relating to

"standard pit type dockboards" and that Unarco would grant a cross license to respondent under certain other patents relating to dockboards owned by Unarco. Respondent agreed to pay Unarco a flat royalty of one per cent on dockboards it manufactured using Unarco's patent and Unarco agreed to pay a royalty to respondent on "standard pit dockboards on a sliding scale, the first 800 licensed boards annually free; the second 800 requiring a royalty of one half of one per cent; the next 400 requiring a royalty of one per cent; and all over 2,000 per year requiring a royalty payment of four per cent of net sales" (PX 1).

The trial court expressly found

> "Unarco's nonexclusive right 'to make, have made, use and sell dockboards coming within the scope of any claims of any of [respondent's] patents' in exchange for a sliding royalty schedule was not an inherently 'personal' right, nor did it in any way preclude assignment. There was no personal or confidential relationship between Kelley and Unarco at the time of contracting. Indeed, they were competitors and adverse parties to litigation. Nor did Kelley place reliance on any skill, knowledge or ability of Unarco in granting the license. There was no agreement between Kelley and Unarco requiring the latter to make any effort to sell its dockboards or limiting the number of dockboards Unarco could make, have made by another, or sell under the license. In summary, the assignment by Unarco to Overhead Door did not and could not materially affect any burden or risk imposed upon Kelley by the license agreement, nor did the assignment impair the performance of the agreement in any respect." (App. 5)

There was and is absolutely no basis in the record for the Seventh Circuit to conclude that the settlement agreement between respondent and petitioner Unarco and the attendant cross licensing agreement constituted a forebearance. The license agreement itself obtained by peti-

tioner Unarco favored said petitioner and was weak as far as respondent is concerned because of the high number of royalty free sales permitted by the license.*

Two and one-half years later, on August 4, 1969, petitioners Overhead Door and Unarco entered into a contract in which Overhead agreed to purchase Unarco's entire dockboard business and all assets used in connection with it (PX 6, Stip. ¶ 15). Overhead Door agreed to pay $50,000 for the dockboard assets, including equipment, trademarks, drawings, patent licenses (including the license from respondent), customers' lists, etc., plus Unarco's cost for all inventory items, and work in process (PX 6).

After this contract had been executed and delivered, Mr. Skogstad, secretary of respondent, wrote a letter to petitioner Overhead Door stating that:

> "Undoubtedly you are aware of the fact that Unarco was licensed by the Kelley Company under its patents, so as to permit Unarco to manufacture these products.
>
> "Please be advised that such licensing was and is limited to Unarco. This license does not extend to you or to any other party." (PX 8).

Subsequently Unarco executed and delivered the various documents required under the August 4, 1969 contract for the sale of all of its dockboard assets and business, including the assignment of Unarco's rights under the license agreement.

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* If the Seventh Circuit were to draw any conclusions from the nature of that relationship, it should not have concluded that respondent exercised forebearance but should instead have concluded, because of the poor agreement respondent was able to obtain, that respondent had a very weak position. Otherwise, it should have continued with its patent litigation rather than execute a weak, give-away, nonexclusive patent license agreement. The license agreement actually could have permitted over a million dollars in sales before the first royalty had to be paid by petitioner Unarco to respondent (Kelley Dep. p. 23).

A declaratory judgment action was promptly filed by petitioners in the United States District Court for the Northern District of Illinois, Eastern Division, asking the court to declare that the nonexclusive patent license from Respondent Kelley to Petitioner Unarco could be assigned to Overhead Door in connection with the sale of its entire dockboard business without the consent of Kelley. Jurisdiction of the District Court was invoked under 28 U.S.C. § 1332, diversity of citizenship. The District Court held that Illinois and not federal law applied, that the applicable Illinois law favors free assignability of contracts and concluded that the license was so assignable (App. A4-A5). The Court of Appeals reversed stating that federal law applied and that the applicable federal law was that patent licenses were *per se* personal and could not be assigned even as a part of a sale of a business without the consent of the licensor. *Unarco Industries, Inc.* v. *Kelley Company, Inc.*, 465 F. 2d 1303, 1306 (7th Cir. 1972).

REASONS FOR GRANTING THE WRIT.

1. The Decision Below Conflicts with the Decisions of State Supreme and Appellate Courts as to Whether Federal or State Law Applies to Determine the Validity of an Assignment of a Patent License Without the Consent of the Licensor.

In the case of *Farmland Irrigation Company* v. *Dopplmaier*, 308 P.2d 732, 42 Cal. 2d 208 (1957), Justice Traynor of the California Supreme Court held that under *Erie Railroad Company* v. *Tompkins*, 304 U.S. 64 (1938), the assignment of a patent license is governed by state not federal law. In addition, the California Court stated that it was not convinced that the United States Supreme Court today would adhere to a federal rule of nonassignability of such licenses. Justice Traynor stated (308 P.2d at 740):

> "We are not persuaded that the United States Supreme Court would, in view of the modern tendency

in favor of assignability, adhere today to the rule it laid down in Hapgood v. Hewitt. Furthermore, we do not find it necessary or wise to establish a fixed rule, peculiar to patent licenses, that such contracts are not assignable unless made expressly so. There is no reason to exempt these contracts from a general rule adopted to facilitate the freest possible transfer of valuable contract rights, while at the same time respecting the parties' intentions. The federal cases have relied on the flat statement that a license creates a merely personal right. This statement should follow as a conclusion from an examination of the purposes and provisions of the particular license, rather than stand as a self-evident first principle. Nothing in the nature of patent licenses makes the rights conferred by them necessarily so personal that the parties must have intended that they be nonassignable."

Although petitioners argued the *Dopplmaier* at length before the Seventh Circuit, it chose to ignore the case in its opinion.

In *American Manufacturing Company of Texas* v. *Witter*, 343 S.W.2d 943 (Tex. Civ. App. 1961), the appellate court held that the assignment of patent licenses should be analyzed in the same manner as any other contract. The patentee granted an exclusive patent license to Keener, the licensee who in turn granted a sublicense to the defendant. The licensee also assigned to the plaintiff the right to receive royalties from the sublicensee. The plaintiff filed suit to recover unpaid royalties from the sublicensee. The sublicensee defended on the ground that under the terms of the original license agreement, the patentee was expressly granted the right to assign royalties but the licensee was not. Therefore, the defendant argued that the assignment of royalties by the licensee was invalid and that the plaintiff had no standing to sue. In light of its decision below the Seventh Circuit would conclude under these circum-

stances that because of the involvement of patents, federal law should govern and not local contract law under the *Erie* doctrine.

The Texas Appellate court, however, did not analyze the case in terms of any general federal common law. Instead, the court referred to Texas law regarding assignments and contracts. The court analyzed the original patent license agreement and concluded that it was not a personal service contract. Therefore, since in Texas the right to assign was presumed unless it was a personal service contract or there is an agreement to the contrary, the court concluded that "the assignments mentioned were valid and the plaintiffs were proper parties to bring suits thereunder." (*Id.* at 946.)

If the Seventh Circuit had applied local law under the *Erie* doctrine, it would have been compelled to review the findings of fact and conclusions as to Illinois law made by the trial court. The trial court found that the relationship between the parties was not a personal relationship, but that of competitors and protagonists. The trial court concluded that Illinois law espouses free assignability of contracts under such circumstances. The trial court stated (App. A3-A4):

> "While there are no Illinois decisions of record relating specifically to the assignability of nonexclusive patent licenses, Illinois law unquestionably favors the free assignability of nonpersonal contract rights, absent a contractual provision or statute to the contrary. *E.g., In re Estate of Frayser*, 401 Ill. 364 (1948); *First National Bank of Danville* v. *Taylor*, 329 Ill. App. 49 (1946); *Broxham* v. *Borden's Farm Products Co. of Illinois*, 53 F. 2d 946 (7th Cir. 1931)."

Other Illinois Supreme Court decisions establishing the Illinois doctrine of free assignability of contracts of a nonpersonal nature include *Monarch Discount Co.* v. *Ches-*

apeake & Ohio Ry. Co., 285 Ill. 233, 239, 120 N.E. 743, 745 (1918), *Mallin* v. *Wenham*, 209 Ill. 252, 254, 70 N.E. 564, 565 (1904), *State Street Furniture Co.* v. *Armour & Co.*, 259 Ill. App. 589, 596, 177 N.E. 702 (1st Dist. 1931), *aff'd* 345 Ill. 160 (1931).

Even the Seventh Circuit, applying Illinois law, has held that where a contract does not require a party to furnish personal service his performance can be delegated and his right assigned to his personal representative upon his death. *Carlock* v. *LaSalle Extension University*, 185 F. 2d 594, 595 (7th Cir. 1950).

In a footnote to the decision below (465 F. 2d at 307), the court below implies that Illinois law does not favor free assignability and cites *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893); *Smith* v. *Preston*, 170 Ill. 179, 48 N.E. 688 (1897); *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898). Contrary to this implication, these cases do not indicate any *per se* rule against the assignability of patent licenses in Illinois. Aside from the fact that these cases represent 19th Century views of contract law and not the more modern theories as exemplified by *Dopplmaier*, these older Illinois cases still did not invoke any arbitrary rule of nonassignability but examined the relationship between the parties to determine whether or not a particular contract was personal and, therefore, not assignable.

The *Havana-Press Drill Co.* case dealt with an exclusive patent license which would not remain effective if the licensor was forced out of the licensee company. This is exactly what happened and the license reverted to the original owner. The court concluded that the company could not assign the license since by the terms of the license the company was no longer the licensee.

The *Rhodes* v. *Ashurst* case is just the sequel to the *Havana Press-Drill Co.* case and dealt with the royalties aspect. The court was not confronted with the question of the validity of the assignment of a patent license.

In *Smith* v. *Preston*, the Illinois Supreme Court clearly reasserts the rule that the license must be reviewed with a view toward determining whether it is personal in nature and, therefore, not assignable. The Illinois Supreme Court in *Smith* did not look to federal law and rested its determination not on any *per se* rule of non-assignability, but on the personal nature of the specific license therein involved.*

The facts in *Unarco* v. *Kelley* preclude any theory that the patent license was personal. The same factors used by the Illinois Supreme Court in *Smith* would show that the patent license from respondent Kelley to petitioner Unarco was not personal and should be freely assignable pursuant to the general law of assignment of contracts in Illinois.

The present state of the law is best set forth by comparing the decision of the Court below with the reasoning of the Court in the *Dopplmaier* case. This Court should grant certiorari in order to resolve the irreconcilable conflict between these two positions.

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* The court in *Smith* asked, "Was this contract with Preston & Co. [the licensee] one of a personal character?" The court then went on to analyze the various factors that made it personal, noting that Mr. Preston was in effect the company, the company was to use its "best efforts" to sell the product, was to attempt to create a "large demand and heavy sale of this article," and the court also notes that the parties had agreed that Preston and his company would advertise the product and solicit sales through the company's employees. The court answers its initial question by stating that *because of the above factors* this particular contract was personal and, therefore, terminated at the death of Preston. It could not be passed on by the company or anyone else.

2. The Decision Below Conflicts with a Decision of the Court on the Question of the Assignability of a Patent License Where There Is a Sale of a Business.

There was a series of opinions issued by the Court prior to *Erie Railroad Company* v. *Tompkins*, 304 U.S. 64 (1938) relating to the assignability of patent licenses without the consent of the licensor. The series consisted of the following cases: *Troy Iron and Nail Factory* v. *Corning*, 55 U. S. 193 (1852); *Oliver, Finnie & Co.* v. *Rumford Chemical Works*, 109 U.S. 75 (1883); *Hapgood* v. *Hewitt*, 119 U.S. 226 (1886); *Lane & Bodley* v. *Locke*, 150 U.S. 193 (1893). The Seventh Circuit cited all but one of these 19th century cases as support for its conclusion that there is a long standing common law holding that patent license agreements are personal to the licensee and not assignable without the consent of the licensor.

There is a substantial difference between the business world of the second half of the 19th century and the acquisition and merger oriented business world since *Erie*. The *Oliver, Finnie & Co.* case which was the one case in the series which the Seventh Circuit did not cite, involves a typical 19th century business relationship. The 19th century cases restricting free assignability were dependent upon the close personal relationships between the licensor and the licensee. As the Court stated in *Oliver, Finnie & Co.* (27 L.Ed. at 864):

> "The right is granted to Morgan alone, to him personally, with an agreement by him that *he* will enter on the manufacture of the self raising flour, and that he will use all *his* business tact and skill to introduce and sell the flour. It is apparent that licenses of this character must have been granted to such individuals as the grantor chose to select because of their personal ability or qualifications to make or furnish a market for the self raising flour and thus for the acid, all of

> which was to be purchased from the grantor. The license was made revocable by the grantor on the failure of Morgan to perform his covenants and agreements." (Emphasis by the Court.)

The Seventh Circuit was incorrect, however, in citing the opinion of the Court in *Lane & Bodley* in support of a rule prohibiting the assignability of a license without the consent of the licensor. In *Lane & Bodley* the Court expressly refused to follow the restrictive rulings in the earlier cases referred to above. The Court stated:

> "We see no reason to disturb those cases; yet we do not feel compelled to extend their ruling to cover the present case."

The Court held that the successor to a business had an equitable right to an implied license of the rights of its predecessor. Nevertheless, in its decision below the Seventh Circuit chose to ignore this clear exception established by the Court permitting assignment without consent in the context of a sale of a business. It further ignored the fact that petitioner Overhead Door succeeded to the entire dockboard business, good will and assets of petitioner Unarco. In fact, Judge Duffey, the draftsman of the opinion of the Seventh Circuit, chose to punctuate his opinion with pejoratives that have no foundation in the record.* The Seventh Circuit also concluded without any support in the record that Unarco was not a serious competitor. This conclusion was erroneously reached by noting that Unarco never exceeded the minimum number of royalty free dockboards. The fact of the matter is that the trial court expressly found that respondent and petitioner Unarco were competitors (App. 4) and Garrett Kelley, the

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* For example, there is no basis in the record describing petitioner Overhead Door as a Texas *conglomerate* or the implication that petitioner was *circumventing* respondent to grant a license to Overhead Door.

chairman of the board of respondent, so testified in his deposition. (Kelley Dep. 5) The reason the minimum number of royalty free dockboards was never exceeded was that the agreement was so unfavorable to respondent that Unarco was able to sell a substantial number of dockboards before it had to pay any royalties.

Moreover, the *Lane & Bodley* decision which grants an implied license (a formal assignment is not even necessary) of a patent license or a shop right to a successor company along with the other assets of the assignor has been followed by courts in other circuits and has been declared by the authorities and text writers as being the applicable rule of law. *Neon Signal Devices, Inc.* v. *Alpha-Claude Neon Corp.*, 54 F.2d 793, 796 (D.C. Pa. 1931); *Papazian* v. *American Steel & Wire Co.*, 155 F. Supp. 111, 120 (D.C. Ohio 1957); *Wilson* v. *J. G. Wilson Corp.*, 241 F. 494 (D.C. Va. 1917); *Ellis, Patent & Licenses* (3d Ed. Del.) § 419, p. 459; *Restatement of Contracts* § 151(a). The failure of the Seventh Circuit to follow *Lane & Bodley*, and the ensuing conflict with all other cases that expressly followed *Lane & Bodley* is a sufficient reason for the Court to grant certiorari.

The Court should also grant certiorari to re-examine the 19th Century cases relied upon by the Seventh Circuit for the purpose of determining their viability today in the light of modern business transactions. The decision of the Court below places in jeopardy any modern business acquisition, sale or merger which includes any patent license or shop right (unless the transaction takes the form of a sale of stock rather than a sale of assets).

3. The Decision Below Conflicts with the Decision of Another Court of Appeals as to Whether Federal or State Law Should Be Applied to Determine the Validity of the Assignment of a Nonexclusive Patent License.

In the case of *T. B. Harms Co.* v. *Eliscu,* 339 F.2d 823 (2d Cir. 1964), *cert. denied,* 381 U.S. 915 (1965), the issue was whether there is federal question jurisdiction in an action by the alleged owner of certain renewal copyrights against an assignee claiming an interest in the copyright through an instrument recorded in the copyright office which was claimed to be an assignment of the rights of the renewal copyrights. The crucial issue was the validity of a purported assignment. The Second Circuit held that the interpretation of such an assignment even though it dealt with copyright matters was one of state law and, therefore, was not a case "arising under any act of Congress relating to . . . copyrights." In *Harms* the court stated:

> "The cases dealing with statutory jurisdiction over *patents* and copyrights have taken the same conservative line." 399 F. 2d at 826 (Emphasis added.)

The Second Circuit held in *Harms* that the interpretation of an assignment of patent licenses or a copyright does not give rise to federal question jurisdiction. The *Harms* court also held that federal law should not be used to interpret the validity of such assignments and went on to cite Justice Holmes in the case of *American Well Works Co.* v. *Layne & Bowler Co.*, 241 U.S. 257, 260 (1916):

> "In an endeavor to explain precisely what suits arose under the patent and copyright laws, Mr. Justice Holmes stated that '[a] suit arises under the law that creates the cause of action;' in the case *sub judice,* injury to a business involving slander of a patent, he said, 'whether it is a wrong or not depends upon the law of the State where the act is done' so that the suit did not arise under the patent laws." 339 F. 2d at 826.

The decision below states, "We are of the opinion that the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law", citing 35 U. S. C. § 1, et seq. and the United States Constitution. The Seventh Circuit held that:

> "This monopoly conferred by federal statutes as well as the policy perpetuating this monopoly, so affects the licensing of patents, and the policy behind such licensing is so intertwined with the sweep of federal statutes, that *any question with respect thereto must be governed by federal law.*" (465 F.2d at 1306) (Emphasis added.)

The basis for subject matter jurisdiction in the district court was diversity of citizenship. Since the decision below held that the federal constitution and statutes relating to patents affects and are intertwined with the policy behind patent licensing and the assignment of such licenses, the Seventh Circuit is holding that contract issues involving patents are federal questions governed by federal law.

Accordingly, there is a direct conflict between the Second and the Seventh Circuits as to whether state or federal law should apply in disputes involving patent contracts; in addition, there is a subtle conflict as to whether such patent contract disputes are the basis for federal question jurisdiction.

4. The Decision Below Conflicts with Other Decisions of the Seventh Circuit as to Whether an Assignment of a License in Connection with the Sale of a Business Is Valid Without the Consent of the Licensor.

The Seventh Circuit itself has applied a "successor" rule similar to *Lane & Bodley* in the case of *Brunswick Corporation* v. *Chrysler Corporation,* 408 F.2d 335 (7th Cir. 1969). *See also, J. R. Clark* v. *Jones & Laughlin Steel Corp.,* 288 F. 2d 279 (7th Cir. 1961), *cert. denied,* 368 U.S.

828 (1961). In *Brunswick,* as in this case, patent litigation resulted in the entry of a consent decree and the creation of a nonexclusive patent license. The licensee subsequently sold its line of business which included the patent license to a third party. The successor took the position that since it purchased assets only and was not the corporate successor to the licensee that it was not bound by the terms of the consent decree and was free to contest the patent. The Seventh Circuit held that by reason of the sale of the assets the successor was in privity with the licensee and therefore was bound by the consent decree. Similarly, petitioner Overhead Door as the successor to petitioner Unarco's dockboard business should be deemed bound by the Tennessee consent decree and related patent license. Petitioner Overhead Door is, therefore, entitled to the benefits of that decree and related patent license as well.

Although petitioners cited *Brunswick* in its brief filed with the Seventh Circuit and made substantially the foregoing argument, the Seventh Circuit chose not to refer to *Brunswick* in its decision below. As a result, there has never been a ruling on the application of the principles set forth in *Brunswick* to the facts of this case.

Accordingly, there is a conflict within the Seventh Circuit itself as to whether the successor to an entire business stands in the shoes of its predecessor and is entitled to the benefits as well as the burdens of its predecessor's commitments. Therefore, we urge that this conflict justifies the grant of certiorari to review the judgment below.

CONCLUSION.

For the foregoing reasons a writ of certiorari should issue to review the judgment and opinion of the Seventh Circuit.

Respectfully submitted,

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December 4, 1972.

APPENDIX.

UNITED STATES DISTRICT COURT
Northern District of Illinois
Eastern Division

UNARCO INDUSTRIES, INC., an Illinois corporation, and OVERHEAD DOOR CORPORATION, an Indiana corporation,
Plaintiffs,
vs.
KELLEY COMPANY, INC., a Wisconsin corporation,
Defendant.

No. 69 C 2156

DECISION ON THE MERITS.

The parties have submitted stipulations of fact and briefs on the underlying legal issue in this declaratory judgment action. For the reasons set forth below, this court is of the opinion that judgment should be entered for the plaintiffs.

The jurisdiction of this court is based upon diversity of citizenship among the parties, and the amount in controversy exceeds $10,000. 28 U. S. C. § 1332. The essential facts are not in dispute. In 1964, the defendant, Kelley Company, Inc. (Kelley), a Wisconsin corporation[1] engaged in the business of manufacturing adjustable dockboards used in the handling of freight, filed suit in Tennessee charging one of the plaintiffs, Unarco Industries, Inc. (Unarco), an Illinois corporation,[2] with patent infringe-

1. Kelley's principal place of business is located in Milwaukee, Wisconsin.

2. Unarco's principal place of business is located in Chicago, Illinois.

ment in its manufacture and sale of adjustable dockboards. *Kelley Company, Inc.* v. *Unarco Industries, Inc.*, United States District Court for the Middle District of Tennessee, Nashville Division, Civil No. 3809. In November, 1967, Unarco and Kelley executed a handwritten settlement agreement providing for dismissal of the lawsuit; recognition of the validity and infringement of Kelley's patents by Unarco; release of Unarco for past infringement acts; and the payment by Unarco of a royalty on its annual sales of dockboards after the first 800 sales of "licensed" boards per year at a rate increasing from one-half per cent to four per cent of the net sales price, depending upon the total number sold. Complaint, Exhibit E. Pursuant to the settlement agreement, on January 1, 1968, Unarco and Kelley formally executed a nonexclusive license agreement in Illinois[3] covering the disputed patents. Complaint, Exhibit B.

In 1968, the plaintiff Overhead Door Corporation (Overhead Door), an Indiana corporation,[4] unsuccessfully proposed a merger with, or acquisition of, the defendant Kelley in order to enter the dockboard business. After this attempt failed, Overhead Door then approached the plaintiff Unarco. The plaintiffs reached an agreement on August 4, 1969, which provided that Overhead Door was to purchase the assets used by Unarco's Sturdi-Bilt Division in the manufacture of dockboards, and that Unarco

3. Although the parties have neglected to stipulate where the license agreement was executed, the plaintiffs assert, and the defendant has not denied, that the agreement was executed in Illinois. Therefore, the court will assume that the agreement was executed in Illinois, and that the substantive rights of the parties are governed by Illinois law. *William J. Lemp Brewing Co.* v. *Ems Brewing Co.*, 164 F. 2d 290 (7th Cir. 1947), *cert. den.* 333 U. S. 863 (1946); *Ryan* v. *Napier*, 252 F. Supp. 730 (N. D. Ill. 1966).

4. Overhead Door's principal place of business is located in Dallas, Texas.

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would discontinue the manufacture of dockboards for a minimal period of five years. Plaintiffs' Exhibit 6. The "dockboard assets" sold by Unarco specifically included its nonexclusive patent license agreement with Kelley. Unarco warranted that every patent incorporated into the agreement was assignable without the prior consent of any other person or, if consent were required, such consent had been obtained. Plaintiffs' Exhibit 6, p. 4. Overhead Door agreed to assume and perform all of Unarco's obligations under the Kelley license agreement. Plaintiffs' Exhibit 6, p. 4.

In fulfillment of the agreement to sell its dockboard business to Overhead Door, on October 23, 1969, Unarco assigned "all of its right, title and interest in and to said agreements dated January 1, 1968 between Kelley and Unarco, and all of its right, title and interest in and to said non-exclusive license . . ." to Overhead Door. Plaintiffs' Exhibit 8. However, after reading an article in the *Wall Street Journal* relating to the acquisition of Unarco's dockboard business by Overhead Door, Kelley immediately notified Overhead Door that Unarco's license under Kelley's patents "was and is limited to Unarco." Complaint, Exhibit D. The sole issue before this court is whether the nonexclusive license agreement between Unarco and Kelley was assignable to Overhead Door without Kelley's consent.

The license agreement is silent on the question of assignability. The federal patent laws do not in any manner proscribe or limit the assignability of nonexclusive patent licenses. Therefore, state law must be applied to determine a question which is essentially one of contract rights. *American Manufacturing Co. of Texas* v. *Witter*, 343 S. W. 2d 943 (Tex. Civ. App. 1961); *Farmland Irrigation Co.* v. *Dopplmaier*, 308 P. 2d 732, 739 (1957). While there are no Illinois decisions of record relating specifically to the assignability of nonexclusive patent licenses, Illinois law un-

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questionably favors the free assignability of nonpersonal contract rights, absent a contractual provision or statute to the contrary. *E.g., In re Estate of Frayser*, 401 Ill. 364 (1948); *First National Bank of Danville* v. *Taylor*, 329 Ill. App. 49 (1946); *Broxham* v. *Borden's Farm Products Co. of Illinois*, 53 F. 2d 946 (7th Cir. 1931). Unarco's nonexclusive right "to make, have made, use and sell dockboards coming within the scope of any claims of any of [Kelley's] patents" in exchange for a sliding royalty schedule was not an inherently "personal" right, nor did it in any way preclude assignment. There was no personal or confidential relationship between Kelley and Unarco at the time of contracting. Indeed, they were competitors and adverse parties to litigation. Nor did Kelley place reliance on any skill, knowledge or ability of Unarco in granting the license. There was no agreement between Kelley and Unarco requiring the latter to make any effort to sell its dockboards or limiting the number of dockboards Unarco could make, have made by another, or sell under the license. In summary, the assignment by Unarco to Overhead Door did not and could not materially affect any burden or risk imposed upon Kelley by the license agreement, nor did the assignment impair the performance of the agreement in any respect.

The defendant Kelley relies upon a Supreme Court decision rendered long before *Erie Railroad Company* v. *Tompkins*, 304 U. S. 64 (1938), for the proposition that under the "general federal law" a patent license is a purely personal right which is not subject to assignment without the consent of the patentee. *Hapgood* v. *Hewitt*, 119 U. S. 226 (1886). While the *Hapgood* decision is clearly distinguishable from the instant case on its facts, this court is of the opinion that the decision and its progeny are invalid today because of the mandate imposed upon the federal courts by the Supreme Court in its later ruling in *Erie Rail-*

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road Company v. *Tompkins, supra.* There, Justice Louis D. Brandeis stated the rule on behalf of the Court as follows:

> "• • • Except in matters governed by the Federal Constitution or by Acts of Congress, the law to be applied in any case is the law of the State. And whether the law of the State shall be declared by its Legislature in a statute or by its highest court in a decision is not a matter of federal concern. *There is no federal general common law. Congress has no power to declare substantive rules of common law applicable in a State whether they be local in their nature or 'general,' be they commercial law or a part of the law of torts. And no clause in the Constitution purports to confer such a power upon the federal courts.*" 304 U. S. at 78 (Emphasis supplied.)

This court concludes, therefore, that in the absence of a provision in the agreement between Unarco and Kelley with respect to assignability, their nonexclusive patent license agreement was assignable to Overhead Door without Kelley's consent, in accordance with the general principles of Illinois contract law. *Cf., American Manufacturing Co. of Texas* v. *Witter, supra; Farmland Irrigation Co.* v. *Dopplmaier, supra.*

It is therefore ordered that judgment be, and it is hereby entered on behalf of the plaintiffs.

It is further ordered that the assignment to Overhead Door Corporation by Unarco Industries of its nonexclusive patent license agreement with Kelley Company be, and it is hereby declared valid.

The motion of the Kelley Company for a preliminary injunction is denied, and the cause is dismissed.

/s/ EDWIN A. ROBSON,
Chief Judge.

May 6, 1971.

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A-6

In the
United States Court of Appeals
For the Seventh Circuit

No. 71-1522 SEPTEMBER TERM 1971 — APRIL SESSION 1972

UNARCO INDUSTRIES, INC., an Illinois corporation and OVERHEAD DOOR CORPORATION, an Indiana corporation,
Plaintiffs-Appellees,

v.

KELLEY COMPANY, INC., a Wisconsin corporation,
Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.

No. 69-C-2156

EDWIN A. ROBSON, *Judge.*

ARGUED JUNE 7, 1972 — DECIDED SEPTEMBER 7, 1972

Before DUFFY, *Senior Circuit Judge,* DURFEE*, *Senior Associate Judge* and ESCHBACH*, *District Judge.*

DUFFY, *Senior Circuit Judge.* This is a suit for declaratory relief seeking the proper construction of a written agreement. The critical question is whether or not the patent license herein considered was assignable without the consent of the licensor. The District Court held the agreement to be assignable. A motion to restrain production and sale of the patented product pending a decision

* Senior Associate Judge James R. Durfee of the United States Court of Claims is sitting by designation.
District Judge Jesse E. Eschbach of the Northern District of Indiana is sitting by designation.

by the District Court was held in abeyance and finally denied.

The principal product manufactured by Kelley Company, Inc., the defendant herein, is based upon a patent granted to Garrett P. Kelley. The Company produced material-handling equipment known as "dockboard." This product permits the movement of merchandise from the bed of a truck to a loading dock.

In 1964, Kelley became aware that Unarco, a large corporation, was marketing and selling a dockboard which Kelley believed infringed its patented invention.

Kelley Company sued Unarco in the Federal District Court in Tennessee for patent infringement. This litigation became protracted and thus very expensive. Settlement discussions were held, and it became apparent to all that it would be for the best interest of both parties to enter into a nonexclusive license agreement terminating the litigation.[1]

It became apparent that Unarco was not a serious competitor in the dockboard industry. Unarco's principal interest was to use dockboard as a selling tool for its principal product which was shelving. The settlement permitted Unarco to manufacture annually a few hundred dockboards without paying a royalty. While operating under this agreement, Unarco never exceeded the minimum number of royalty-free dockboards anticipated by the parties to the agreement.

Thereafter, the President of a Texas conglomerate named Overhead Door attempted to buy or merge with Kelley Company because of its desire to operate in the dockboard field. No agreement was reached.[2]

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[1] The license agreement pursuant to the settlement between Kelley and Unarco was executed on January 1, 1968. The license provided that Kelley grant Unarco for the entire term of specified patents "a nonexclusive license to make, have made, use and sell dockboards coming within the scope of any claims of any of the said patents." The license further provided for royalties on dockboards produced by Unarco over a stipulated minimum. Also, as part of the agreement, Unarco issued a nonexclusive license agreement to Kelley for two Unarco patents under which agreement Kelley was to pay a royalty.

[2] Appellant Kelley stated in its brief to this Court "This overture and approach by the Texas conglomerate was politely rebuffed."

Overhead Door then contacted Unarco with respect to the possible purchase of Unarco's dockboard division [Sturdi-bilt]. On August 4, 1969, Overhead Door and Unarco entered into a contract whereby Overhead Door agreed to purchase and Unarco agreed to sell Unarco's dockboard business and all the assets used in connection therewith. In this contract, Unarco agreed not to compete for at least five years in the dockboard business with Overhead Door, and furthermore warranted that "Every contract, license agreement or other intangible included among Dock Board Assets is assignable by UNARCO without prior consent of any other person. . . ."

Subsequently, in a letter dated August 13, 1969, the attorney for Kelley was notified by a newspaper article of the contemplated acquisition of the Sturdi-bilt (dockboard) division of Unarco by Overhead Door. Overhead Door was advised by Kelley's attorney that their license agreement for the patents "was and is limited to Unarco."

On October 20, 1969, Unarco and Overhead Door commenced this action in District Court for a declaratory judgment with respect to the assignability of the nonexcusive patent license.[3]

The District Court held that the compromise agreement was a simple contract to be construed under the common law of the State of Illinois. Further, that as Illinois common law views a liberal construction of the assignability of all contracts, the license of the patent was assignable.

Defendant Kelley points out that the nonexclusive license agreement or contract between Kelley and Unarco was not only the result of a compromise settlement but it was, in fact, a forbearance.

Kelley points out that if the judgment of the District Court is sustained, Kelley's refusal to sell out to Overhead Door will be circumvented, and Overhead Door

[3] On October 23, 1969, three days after commencing this action, Unarco entered into an assignment of licensing agreement with Overhead Door, assigning to Overhead all their rights to royalties from Kelley under that agreement for the use of Unarco's patents.

would, indirectly, obtain Kelley's patent rights which Kelley had consistently refused to sell to Overhead Door.

The threshold question before our Court is whether the law of the State of Illinois, where the contested agreement was consummated, applies, or whether determination of this issue in federal court falls within one of the exceptions to the doctrine of *Erie R. Co.* v. *Tompkins,* 304 U.S. 64 (1938) requiring the application of federal common law.[4]

The Supreme Court considered this exception to *Erie* in *Sola Electric Co.* v. *Jefferson Co.,* 317 U.S. 173, 176 (1942). In that opinion regarding patent license litigation, the Supreme Court also considered the application of estoppel and whether estoppel in litigation concerning patent licenses and the Sherman Act was a state or federal question. The Court held that estoppel as applied was a federal question where, if invoked, it would thwart the purposes of statutes of the United States. *Erie* was distinguished in *Sola Electric Co., supra,* by the following passage:

> "It is familiar that the prohibition of a federal statute may not be set at naught, or its benefits denied, by state statutes or state common law rules. In such a case our decision is not controlled by *Erie R. Co.* v. *Tompkins,* 304 U.S. 64. There we followed state law because it was the law to be applied in the federal courts. But the doctrine of that case is inapplicable to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes, rather than by local law. *Royal Indemnity Co.* v. *United States,* 313 U.S. 289, 296; *Prudence Corp.* v. *Geist,* 316 U.S. 89, 95; *Board of Comm'rs.* v. *United States,* 308 U.S. 343, 349-50; *cf. O'Brien* v. *Western Union Telegraph Co.,* 113 F. 2d 539, 541. To the federal statute and policy, conflicting state law and policy must yield."

---

[4] The exception to application of state law to outcome determinative questions appears on page 78 of *Erie, supra* "Except in matters covered by the Federal Constitution or by Acts of Congress, the law to be applied in any case is the law of the state."

Article I, Section 8, Clause 8 of the United States Constitution provides that Congress has been granted the power ". . . [T]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." This exclusive and personal concept of patents was considered by Congress upon implementation of the Patent Act of 1952[3] and other legislation aimed at federal control of patent regulation. When an inventor or person holding patent rights desires to license or relinquish any part of the patent monopoly, such person is utilizing the monopoly of rights intended by the framers of the Constitution and the legislation of Congress to reward invention and originality. This monopoly conferred by federal statute as well as the policy perpetuating this monopoly, so affects the licensing of patents, and the policy behind such licensing is so intertwined with the sweep of federal statutes, that any question with respect thereto must be governed by federal law.

We are of the opinion that the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question.

We agree with Kelley that we are here considering a specific policy of the patent law dealing with federal patent rights, and in that respect our problem does not involve the general state of Illinois contract law.

The long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement. *Troy Iron & Nail Factory* v. *Corning,* 55 U.S. 193 (1852); *Hapgood* v. *Hewitt,* 119 U.S. 226 (1886); *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193 (1893); *Wood Harvester Co.* v. *Minneapolis Harvester Co.,* 61 F. 256 (8 Cir., 1894); *Bowers* v. *Lake Superior Contracting,* 149 F. 983 (8 Cir., 1906). See also *Deller's Walker on Patents,* Sec. 409 (2d Ed. 1965).

[3] 35 U.S.C. § 1 et seq.

In *Wood Harvester Co.* v. *Minneapolis Harvester Co., supra,* the license agreement said nothing pertaining to assignability. That Court said on page 258: ". . . I think the absence of any words of assignability in this license shows an intent to make it run to [licensees] alone, as clearly as if words of non-assignability had been incorporated therein." In post-Erie federal decisions, this rule of non-assignability has been unquestioned. *Rock-Ola Mfg. Corp.* v. *Filbin Mfg. Co.,* 168 F.2d 919 (8 Cir., 1948), cert. den. 335 U.S. 892.

This rule of non-assignability absent consent has been adhered to by state[6] and federal courts. We therefore hold the District Court was in error in departing from this well established rule.

We hold the nonexclusive license agreement which was, in fact, a forbearance of suit, here in question was personal, and that it was not assignable without Kelley's consent. Further, the attempted assignment by Unarco Industries, Inc. to Overhead Door was and is void.

The judgment of the District Court is

REVERSED.

A true Copy:

Teste:

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Clerk of the United States Court of Appeals for the Seventh Circuit.

[6] Although we need not consider state law, Illinois law is also well settled. The case of *Havana Press Drill Company* v. *Ashurst,* 148 Ill. 115, 35 N.E. 873 (1893) was not called to the attention of the District Court. In that case, a license was granted which was thereafter assigned. There was no statement in the license as to its assignability. The Illinois Supreme Court there stated: "In the present case the Drill Company had no authority to assign the license for two reasons, (1) because the license to it did not run to its assigns and was therefore merely personal. . . ." See also *Smith* v. *Preston,* 170 Ill. 179, 48 N.E. 588 (1897); *Rhodes* v. *Ashurst,* 176 Ill. 351, 52 N.E. 118 (1898).

USCA 4013—The Scheffer Press, Inc., Chicago, Illinois—9-7-72—200

TABLE OF CONTENTS

	PAGE
Table of Citations	ii
Statement of the Case	2
Question Presented	4
Reasons for Denying the Writ	6
1. The decision of the Court of Appeals does not conflict with the decision of any state court as to the applicability of federal or state law to determine the validity of an assignment of a patent license without consent of the licensor	6
2. The decision of the Court of Appeals does not conflict with any decision of the Court on the question of the assignability of a patent license in connection with the sale of a business	16
3. The decision of the Court of Appeals is not in conflict with the decision in *T. B. Harms Co.* v. *Eliscu*, 339 F.2d 823 (2d Cir. 1964), *cert. denied*, 381 U.S. 915 (1965)	20
4. The decision of the Court of Appeals is not in conflict with the decision in *Brunswick Corporation* v. *Chrysler Corporation*, 408 F.2d 335 (7th Cir. 1969)	21
Conclusion	22

TABLE OF CITATIONS

Table of Cases

PAGE

American Manufacturing Co. v. Witter, 343 S.W. 2d 943 (Tex. Civ. App. 1961) 11

Bowers v. Lake Superior Contracting, 149 F. 983 (8th Cir. 1906) 7

Brunswick Corporation v. Chrysler Corporation, 408 F. 2d 335 (7th Cir. 1969) 21

Clark v. Jones & Laughlin Steel Corp., 288 F.2d 279 (7th Cir. 1961) cert. denied 368 U.S. 828 (1961) 22

Dunkley Co. v. California Packing Co., 277 F. 996 (2d Cir. 1921) 18

Erie R. Co. v. Tompkins, 304 U.S. 64, 82 L.Ed. 1188 (1938) 6, 10

Farmland Irrigation Co. v. Dopplmaier, 48 Cal. 2d 208, 308 P. 2d 732 (1957) 6, 7, 13

Gate-Way, Inc. v. Hillgren, 82 F.Supp. 546 (S.D. Cal. 1949) 18

Haffcke v. Clark, 50 F. 531 (4th Cir. 1892) 7

Hapgood v. Hewitt, 119 U.S. 226, 30 L.Ed. 369 (1886) ..7, 17

Hartford-Empire Co. v. Demuth Glass Works, Inc. 19 F. Supp. 626 (E.D. N.Y. 1937) 18

Havana Press-Drill Co. v. Ashurst, 148 Ill. 115, 35 N.E. 873 (1893) 8, 11, 12

Kelly v. Kosuga, 358 U.S. 516, 3 L. Ed. 2d 475 (1959) 11

PAGE

Kenyon v. Automatic Instrument Co., 63 F. Supp. 591 (W.D. Mich. 1945), rev'd on other grounds, 160 F. 2d 878 (6th Cir. 1947) 7, 10

Lane & Bodley Co. v. Locke, 150 U.S. 193, 37 L. Ed. 1049 (1893) 7, 16, 18

Lightner v. Railroad Company, 1 Lowell 338 Fed. Case 8,343 (CC Mass. 1869) 18

Neon Signal Devices v. Alpha-Claude Neon, 54 F. 2d 793 (D.C. Pa. 1931) 18

Niagara Fire Extinguisher Co. v. Hibbard, 179 F. 844 (7th Cir. 1910) 18

O'Brien v. Western Union, 113 F.2d 539 (1940) 11

Oliver, Finnie & Co. v. Rumford Chemical Works, 109 U.S. 75, 27 L.Ed. 862 (1883) 17

Papazian v. American Steel and Wire Co., 155 F. Supp. 111 (E.D. Ohio 1957) 18

Rhodes v. Ashurst, 176 Ill. 351, 52 N.E. 118 (1898) 8, 11, 13

Rock-Ola Mfg. Corp. v. Filbin Mfg. Co., 168 F.2d 919 (8th Cir. 1948), cert. denied, 335 U.S. 892 10

Smith v. Preston, 170 Ill. 179, 48 N.E. 688 (1897) 8, 13

Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173, 87 L. Ed. 165 (1942) 11

T. B. Harms Co. v. Eliscu, 339 F. 2d 823 (2d Cir. 1964) cert. denied, 381 U.S. 915 (1965) 11, 20, 21

Troy Iron & Nail Factory v. Corning, 55 U.S. (14 How.) 193, 14 L.Ed. 383 (1852) 7, 14, 17

PAGE

Wilson v. J. G. Wilson Corp., 241 F. 494 (E.D. Va. 1917) 18

Wood Harvester Co. v. Minneapolis Harvester Co., 61 F. 256 (8th Cir. 1894) 7,9

Other Citations

Deller's Walker on Patents, Sec. 409 (2d Ed. 1965) 8

Robinson on Patents, Sec. 823 (1890) 8

Risdale Ellis, *Treatise on Patent Licenses*, Sec. 410, 416 (Deller 3d Ed. 1958) 8

Assignability of Licensee's Rights Under Patent Licensing Contracts, 66 A.L.R. 2d 606 (1959) 8

U.S. Constitution, Art. I §8 19

In the Supreme Court of the United States

OCTOBER TERM, 1972.

No. 72-831

UNARCO INDUSTRIES, INC. and OVERHEAD DOOR CORPORATION,

Petitioners,

vs.

KELLEY COMPANY, INC.,

Respondent.

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

This Brief is submitted by Respondent, Kelley Company, Inc., in opposition to the Petition for a Writ of Certiorari filed by Unarco Industries, Inc. and Overhead Door Corporation, Petitioners, and docketed on December 6th, 1972, for review of the Judgment of the United States Court of Appeals For The Seventh Circuit in this matter entered on September 7th, 1972 and reported at 465 F.2d 1303 (7th Cir. 1972).

STATEMENT OF THE CASE

The facts of the case were stipulated. However, Petitioners' mischaracterization of the stipulated facts requires a restatement.

The patent license agreement which is the subject of this dispute was granted by Kelley Company, Inc., under Kelley patents, to Unarco in settlement of patent infringement litigation brought by Kelley against Unarco for infringement of the very patents under which the license was ultimately granted (Stip. ¶¶7-9; R. 52-53).

Kelley Company is a Wisconsin corporation with its principal place of business at Milwaukee, Wisconsin. Its principal product is an adjustable "dockboard" which permits movement of merchandise from the bed of a truck to a loading dock; the dockboard is the invention of Mr. Garrett P. Kelley, the founder of Kelley Company (Kelley Dep. 4; A. 7).

Petitioner Unarco is an Illinois corporation, the "Sturdi Bilt" division of which engages principally in the manufacture of steel storage racks and components. Among other related activities in which the division engaged was the manufacture and sale of dockboards in conjunction with sales of storage racks (Sum. ¶1; R. 69, 73-74). The dockboard activities were a relatively small part of the total business of Unarco (Supp. Stip. ¶1; R. 73-74).

In 1964, Kelley commenced litigation against Unarco in the United States District Court for the Middle District of Tennessee for infringement of the Kelley patents relating to dockboards (Stip. ¶7; R. 52). In 1968, Kelley and Unarco agreed upon a settlement whereby, among

other things, Kelley granted Unarco a non-exclusive license under the patents which were under dispute (Kelley Dep. Pl. Ex. 1, 2). The license was granted as an accommodation to Unarco, to enable Unarco to make and sell the dockboards required in connection with the sale of other products by Unarco without adversely affecting the business of Kelley (Supp. Stip. ¶1; R. 73-74; A. 7).

During 1968 the Petitioner Overhead Door Corporation contacted officers of Kelley Company with a proposal that Kelley Company be merged or acquired by Overhead Door in order to permit Overhead to enter into the business of the manufacture and sale of dockboards (Stip. ¶14; Sum. ¶4; R. 54, 70). After a few meetings with representatives of Overhead Door, Kelley informed Overhead that it was not interested in merger or acquisition by Overhead Door (Stip. ¶14; Sum. ¶4; R. 54, 70).

Thereafter, failing agreement with Kelley, Overhead Door contacted Unarco in order to purchase the license rights under the Kelley patents granted to Unarco in the settlement (Stip. ¶ 15; R. 54-55). On August 4, 1969, Overhead Door and Unarco entered into a contract whereby Overhead Door was to purchase the license under the Kelley patents together with the inventory and equipment used by Unarco in the manufacture of dockboards. Unarco was required to warrant that the license under the Kelley patents was assignable, and to give hold harmless and indemnification agreements with respect thereto (Kelley Dep. Pl. Ex. 6). When the contract between Unarco and Overhead came to the attention of officers of Kelley Company, Mr. Garrett P. Kelley promptly informed Unarco and Overhead Door that the license granted under the Kelley patent in settlement of the infringement litigation "was and is limited to Unarco." (Kelley Dep. Pl. Ex. 5).

Thereafter, on October 20, 1969, three days prior to the time the license agreement was actually assigned by Unarco to Overhead Door (Kelley Dep. Pl. Ex. 8; A. 8 n.3), Unarco and Overhead Door commenced this action for declaratory judgment with respect to the assignability of the non-exclusive patent license without consent of the licensor.

Trial was had upon stipulated facts and briefs of counsel before the United States District Court For The Northern District of Illinois, Eastern Division. The District Court found for the Petitioners, Unarco and Overhead Door. The judgment of the District Court was reversed by the Court of Appeals For The Seventh Circuit, and the Petitioners subsequently filed the present Petition for a Writ of Certiorari.

QUESTION PRESENTED

The "contested issue" as stipulated by both parties before the District Court (R. 71), and decided by the Court of Appeals (A. 6), is as follows:

> Where a licensee has a non-exclusive license to make, have made, use and sell equipment coming within the scope of the claims of certain patents, may the licensee legally assign his rights to a third party without the consent of the licensor. (Sum. of Facts ¶10; R. 71)

The factual context of the question as originally presented was, of course, that the license was granted to the licensee in settlement of patent infringement litigation involving the very patents under which the license was granted.

The questions now presented by Petitioners are substantially more elaborate than those originally expressed. More important, in an apparent attempt to shift the emphasis

from the question as originally presented, the questions now presented by Petitioners are predicated upon an inaccurate characterization of the facts of the case, particularly in view of some of the authorities cited in the Petition and the case law under which Petitioners are requesting this Petition be granted.

Each of the questions presented by Petitioners assumes as a factual context a "sale of the assets of an entire business." (Pet. 2) Unarco did not by any means sell the assets of its business to Overhead. As expressed in the decision of the Court of Appeals:

> . . . Unarco was not a serious competitor in the dockboard industry. Unarco's principal interest was to use dockboard as a selling tool for its principal product which was shelving. 465 F.2d at 1304; App. 7

Unarco sold only a portion of its "Sturdi Bilt" division when it sold the dockboard assets to Overhead (R. 69), and according to the stipulation between the parties, "Unarco's dockboard business was a relatively small part of its total business." (Supp. Stip. ¶1; Sum of Facts ¶1; R. 73, 74). The Agreement itself recited that Overhead desired to purchase "certain of the assets used by Unarco's Sturdi Bilt Division in the manufacture of Dock Boards," and Overhead did not assume liabilities of Unarco (Kelley Dep. Pl. Ex. 6). Overhead may have purchased license agreements and inventory from Unarco, but it did not buy the "entire business" of Unarco.

The questions presented by Petitioners are not the questions presented by the facts of this case.

REASONS FOR DENYING THE WRIT

1. THE DECISION OF THE COURT OF APPEALS DOES NOT CONFLICT WITH THE DECISION OF ANY STATE COURT AS TO THE APPLICABILITY OF FEDERAL OR STATE LAW TO DETERMINE THE VALIDITY OF AN ASSIGNMENT OF A PATENT LICENSE WITHOUT CONSENT OF THE LICENSOR.

First, a supposed conflict between a decision of a state court applying state law and that of a federal court of appeals applying federal law is not generally considered to be a basis for issuance of a Writ of Certiorari (Rule 19, Rules of the Supreme Court). For this reason alone, the first reason set forth by Petitioners for granting the Writ should be disregarded.

Moreover, the conflict between state and federal decisional law which the Petitioners propound is nonexistent. The conflict is alleged to stem from the decision of the California Supreme Court in *Farmland Irrigation Co.* v. *Dopplmaier,* 48 Cal. 2d 208, 308 P.2d 732 (1957).

The *Farmland* case was decided upon the basis of rules of contract construction, and involved matters of state law. The decision states the premise that *patent rights* must be distinguished from *contract rights,* such as specific performance or payment of royalties under a contract, the latter being matters of state law under the doctrine of *Erie R. Co.* v. *Tompkins,* 304 U.S. 64, 82 L. Ed. 1188 (1938) See *Farmland,* 308 P.2d at 737.

The decision of the Court of Appeals in this present matter, which involves directly the *patent rights of Kelley,*

is not at all in conflict with this premise of the *Farmland* decision. Rather, it implements an observation in the *Farmland* decision, expressed as follows:

> Even if state law governs the basic elements of the plaintiff's case in an action to recover royalties on a license, *it does not follow that every issue in the case, including the assignability of the license, is governed by state law.* [citations omitted]. *If the policy of the patent laws or some other federal statute requires it, state law must of course give way.* [citations omitted]. Moreover, the absence of any specific statutory provision governing the issue does not in itself mean that federal law does not control, for *if the policy of the federal statute or the implications of the federal system require a uniform rule of decision, the federal courts have paramount power to fashion such a rule. Farmland, supra,* at 739. [Emphasis supplied].

The Court of Appeals in its decision recognizes the uniform federal policy regarding the assignability of patent licenses as well as the absence of conflicting state law, and applies the federal rule of law that patent license agreements are personal to the licensee and are not assignable unless expressly made so, as expressed in a long and unbroken line of federal decisions. See, *e.g., Troy Iron & Nail Factory* v. *Corning,* 55 U.S. (14 How.) 193, 14 L. Ed. 383 (1852) (license claimed in compromise of litigation); *Hapgood* v. *Hewitt,* 119 U.S. 226, 30 L. Ed. 369 (1886); *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193, 37 L. Ed. 1049 (1893); *Wood Harvester Co.* v. *Minneapolis Harvester Co.,* 61 F. 256 (8th Cir. 1894); *Haffcke* v. *Clark,* 50 F. 531 (4th Cir. 1892); *Bowers* v. *Lake Superior Contracting,* 149 F. 983 (8th Cir. 1906) (a "well-established rule" in 1906); *Kenyon* v. *Automatic Instrument Co.,* 63 F. Supp. 591 (W.D. Mich. 1945), reversed on

other grounds, 160 F.2d 878 (6th Cir. 1947); See also *Deller's Walker on Patents*, Sec. 409 (2d Ed. 1965); Risdale Ellis, *Treatise on Patent Licenses*, Sec. 410, 416 (Deller 3d Ed. 1958); *Robinson on Patents*, Sec. 823 (1890).

The rule has been strictly adhered to by state and federal courts alike, including decisions in the State of Illinois. *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893); *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898); *Smith* v. *Preston*, 170 Ill. 179, 48 N.E. 688 (1897). See Anno., "Assignability of Licensee's Rights Under Patent Licensing Contracts," 66 A.L.R. 2d 606 (1959) and citations collected therein.

The Court of Appeals held:

> We are of the opinion that the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question.
>
> We agree with Kelley that we are here considering a specific policy of the patent law dealing with federal patent rights, and in that respect our problem does not involve the general state of Illinois contract law.
>
> The long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement. [Citations Omitted] A. 10; 465 F.2d at 1306.

The ultimate question for decision here is whether Overhead is entitled to manufacture and sell products which are covered by valid patents held by Kelley. Thus, the very essence of the federal patent right granted to Kelley by federal law is the subject of the dispute between these par-

ties, and the Court of Appeals was correct in holding that the federal law pertaining to assignability of license agreements is applicable in the present instance.

There would be no doubt as to the appropriateness of the decision of the Court of Appeals in this regard if Unarco and Overhead had not been the first to resort to the courts with this declaratory action, and Kelley had instead brought action against Overhead for infringement of the Kelley patents. A defense based upon the existence of a license agreement would not change the character of the action from that of an infringement suit under the patent laws to an action amenable by recourse to state law. *Wood Harvester Co.* v. *Minneapolis Harvester Co.*, 61 F. 256 (8th Cir. 1894).

In the *Wood* case the Court stated "the existence of the right to manufacture being directly involved, the controversy grows out of the patent laws, and this Court has jurisdiction." 61 F. at 258.

The facts in the *Wood* case are substantially identical to those in the present instance, except that the license there was given under motivation of royalties only, and not in settlement of litigation. The license agreement contained nothing pertaining to assignability, and the plaintiff patentee maintained that the license was therefore not assignable as a matter of law. The court found as follows:

> The question which must control is: Was the license of November 7, 1879, assignable, or was it personal to [licensees]. Upon careful examination I do not find any words that carry power to assign this license: nowhere do the words "heirs," or words of similar import, appear. It is well established that a license by a patentee is personal to the licensee, and not transferable to another, unless it contains words which show

> that it was intended to be assigned. I think *the absence of any words of assignability in this license shows an intent to make it run to* [*licensees*] *alone, as clearly as if words of nonassignability had been incorporated therein. Wood,* at 258. [Emphasis supplied]

It has not been disputed either in this action or in the *Farmland* decision that the federal rule of law that a patent license is not assignable unless *expressly* made so is one that has been well established by use as well as by time.

The rule of nonassignability of patent licenses was certainly clear prior to the *Erie* decision in 1938; furthermore, the rule has not been questioned in the federal courts since *Erie.* On the contrary, the rule of nonassignability was recognized in *Kenyon* v. *Automatic Instrument Co.,* 63 F. Supp. 591 (W.D. Mich. 1945); and in *Rock-Ola Mfg. Corp.* v. *Filbin Mfg. Co.,* 168 F. 2d 919 (8th Cir. 1948), *cert. denied,* 335 U.S. 892, the Court was given opportunity to review the federal rule of nonassignability, but denied certiorari.

Erie did not convert the rule governing the assignability of *licenses under federal patents* from *federal* control to *state* control.

The *Erie* case clearly set forth the exception to the application of state law here pertinent in the following language:

> *Except in matters covered by the Federal Constitution or by Acts of Congress,* the law to be applied in any case is the law of the state. *Erie,* 304 U.S. at 78. [Emphasis supplied]

This exception is explained and its breadth established in cases subsequent to *Erie,* in which the application of "fed-

eral common law" in diversity cases has been required. This Court, in *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, 87 L. Ed. 165 (1942), considered a patent license agreement in relation to the federal antitrust laws. The Court there stated:

> [In the *Erie* decision] we followed state law because it was the law to be applied in the federal courts. *But the doctrine of that case is inapplicable to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes,* rather than by local law. *Sola*, 317 U.S. at 176 [Emphasis supplied]

For similar holdings, see *Kelly* v. *Kosuga*, 358 U.S. 516, 3 L. Ed. 2d 475 (1959); *O'Brien* v. *Western Union*, 113 F.2d 539, 541 (1940); *T. B. Harms Co.* v. *Eliscu*, 339 F.2d 823 (2d Cir. 1964), *cert. denied*, 381 U.S. 915 (1965).

The case of *American Manufacturing Co.* v. *Witter*, 343 S.W.2d 943 (Tex. Civ. App. 1961), also cited by Petitioners as a case in conflict with the decision of the Court of Appeals, is inapposite, since the license there considered expressly permitted assignment, and the case dealt with payment of royalties as a contractual question rather than a question arising under the patent laws.

It can readily be seen that there is no conflict between state and federal courts as to the applicability of federal law to this question. Moreover, even if state law were to be applied in order to determine the question, the Illinois precedents of *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893) and *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898), as the Court of Appeals noted, establish the undisputed law and policy of the State of

Illinois to be in accord with the federal rule with respect to assignment of patent licenses. Those decisions as applied to the present case would require a holding under state law that this license is personal and non-assignable, and would certainly not constitute "conflicting" cases so as to be a basis for issuance of a writ of certiorari.

The Petitioners have boldly cited a statement by the District Court to the effect that "There are no Illinois decisions of record relating specifically to the assignability of nonexclusive patent licenses." (Pet. 8).

The Court of Appeals cited the *Havana* and *Rhodes* cases in footnote, to illustrate that Illinois law was in accord with the court's decision as to the assignability of patent licenses, and mentioned the fact that these cases had not been called to the attention of the District Court (App. 11; 465 F.2d at 1307).

In *Havana Press-Drill Co.* v. *Ashurst*, 148 Ill. 115, 35 N.E. 873 (1893) an exclusive patent license was granted to an Illinois drill corporation. The corporation subsequently assigned the license to a major shareholder, who further assigned it to an Ohio corporation. The license was silent as to assignability, but provided that the license should terminate upon certain conditions. The Illinois Supreme Court held as follows:

> In the present case the drill company had no authority to assign the license for two reasons: (1) *Because the license to it did not run to its assigns, and was, therefore, merely personal . . . Havana*, 35 N.E. at 880. [Emphasis supplied]

Any question as to whether the *Havana* case established as Illinois law and policy the rule that a patent license is personal and not assignable unless expressly made as-

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signable, was resolved in *Rhodes* v. *Ashurst*, 176 Ill. 351, 52 N.E. 118 (1898), a subsequent decision arising from the same transaction. The Supreme Court of Illinois there stated:

> *A [patent] license is not assignable, strictly speaking . . . Rhodes*, 52 N.E. at 120, 121.

If, as Petitioners contend, this controversy must be decided on the basis of Illinois law, then certainly the holdings of the *Havana* and *Rhodes* cases, which have not been questioned in Illinois since rendered, establish the law and policy of the State of Illinois as to assignment of patent licenses and must control. See also *Smith* v. *Preston*, 170 Ill. 179, 48 N.E. 688 (1897) (where a patent license was held nonassignable because of its personal nature).

The Petitioners have placed great emphasis upon the supposed general policy of free assignability of contracts under the law of the State of Illinois, and have implied that should state law apply, this general policy of free assignability would control the present controversy. In their presentation, Petitioners are, of course, forced to ignore specific Illinois decisions dealing with this specific area of law which declare patent licenses personal and nonassignable.

A postulate of contract construction was recognized in the *Farmland* decision; there it was stated that the intentions of the parties must be paramount:

> "This statement [as to the personal nature of the license agreement] should follow as a conclusion from an examination of the purposes and provisions of the particular license . . ." *Farmland*, 308 P.2d at 740.

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Application of this rule of contract construction would not change the result in the present case. The California Court in *Farmland,* upon examination of the license and the surrounding circumstances, concluded that the license was granted for purposes of royalty and profits, and that there were no indications that the license should be non-assignable. *Farmland, supra,* at 741-42. The license granted in the *Farmland* case was divisible. The licensee could grant further sublicenses under the license without the prior consent of the patentee. Personal control by the patentee was thereby expressly negated. This significant factor was relied upon in the decision. *Farmland,* 308 P. 2d at 735, 741.

However, in the instant case, the patent license was granted in settlement of litigation concerning infringement of the very patents under which the license was ultimately granted (Kelley Dep. Pl. Ex. 1). It cannot be disputed that Kelley was intent upon protecting its patent rights against infringement. Kelley was induced to grant the patent license in recognition of the expense and inconvenience of sustained litigation. This is quite different from a *sale* of license rights on the open market with profit as the motive, as was the case in *Farmland.*

Nor was the license to Unarco divisible. Unarco could not grant sublicenses without the consent of Kelley, as was the case in *Farmland.* Kelley did not relinquish its personal control as patentee.

The stated purpose of the license agreement here was to settle litigation. The personal aspects of settlement negotiations, particularly when one party will thereby be enabling the other as a competitor, cannot be disregarded. See *Troy Iron & Nail Factory* v. *Corning, supra,* 55 U.S. at 213.

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Kelley had not offered its license for sale. The fact that litigation was settled by means of a license agreement cannot be considered probative of a change of intention on the part of Kelley. The agreement as a matter of law and as a matter of the surrounding circumstances was a personal forebearance relating only to Unarco.

The terms of the license agreement itself are unique. The agreement enabled Unarco to produce 800 units in each calendar year without payment of royalty, only calling for royalties on dockboards produced thereafter. These terms are an accommodation to the precise needs of Unarco, enabling it to produce dockboards as required by Unarco as an ancillary product complementing its sale of storage shelves in a warehouse package, without adversely affecting the business of Kelley.

In point of fact, Unarco at all times subsequent to the settlement confined its production of dockboards to under 800 per year (402 in 1968 and 196 in 1969), and never paid royalty to Kelley (Stip. ¶13; R. 54; Kelley Dep. 18). This contemplated use of the license by Unarco was known to Kelley at the time of the settlement (Supp. Stip. ¶2; R. 73-74). If Unarco had been, or intended to be, a major competitor with Kelley in the production of dockboards, certainly Kelley would not have granted the license, but would have continued with infringement litigation.

The provisions of the license granted by Kelley to Unarco in settlement of patent infringement litigation, and the surrounding circumstances, including the purpose of the license, abound with indications of the personal nature of the license agreement and the fact that it was not intended to be assignable.

Thus, even utilizing the basis for decision advocated by Petitioners, there is no conflict between the *Farmland* decision and that of the Court of Appeals.

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The *Farmland* decision both admits the supremacy of the federal law in areas of federal concern, and propounds criteria for decision under state law and rules of contract construction which are in complete harmony with the decision of the Court of Appeals upon the facts presented in the present case.

There is no conflict whatsoever between the positions of the California Supreme Court in the *Farmland* decision and the Court of Appeals in the decision rendered below, much less an "irreconcilable" conflict as alleged by Petitioners.

2. THE DECISION OF THE COURT OF APPEALS DOES NOT CONFLICT WITH ANY DECISION OF THE COURT ON THE QUESTION OF THE ASSIGNABILITY OF A PATENT LICENSE IN CONNECTION WITH THE SALE OF A BUSINESS.

Petitioners contend that the decision of the Court of Appeals is in conflict with the decision of the Court in *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193, 37 L. Ed. 1049 (1893). The *Lane & Bodley* case was briefed to the Court of Appeals, and the case was not applied to the present circumstances for the simple reason that the facts of this case do not come within the principles set forth in that case.

The *Lane & Bodley* case deals with an equitable shop right to use a patented item, and not an express license. *Locke,* the patentee, disputed the use of the shop right by a successor corporation, "Lane & Bodley Company," organized to continue the business of a predecessor partnership, "Lane & Bodley," both of which entities had em-

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ployed him. The Court upheld the rights of the successor corporation to the shop right on several grounds, one of which was a long time ratification by the patentee of the use of the shop right by the corporation. The Court did not change and in fact expressly affirmed the principle that an express patent license cannot be assigned without the consent of the licensor. The Court cited *Hapgood* v. *Hewitt*, 119 U.S. 226, 30 L. Ed. 369 (1886), *Troy Iron & Nail Factory* v. *Corning*, 55 U.S. (14 How.) 193, 14 L. Ed. 383 (1852) and *Oliver, Finnie & Co.* v. *Rumford Chemical Works*, 109 U.S. 75, 27 L. Ed. 862, which established this principle, and said:

> We see no reason to disturb those cases; yet we do not feel compelled to extend their ruling to cover the present case. [a shop right].
>
> It may well be that an express license, set forth in terms, is not assignable unless it is so provided in the instrument. 150 U.S. at 196.

Thus, the language of the Court quoted by Petitioners to the effect that "we do not feel compelled to extend the ruling" (Pet. 12) is directed only at situations involving shop rights or equitable licenses, and not express licenses, in which latter case the rule would remain that the licenses would be personal and nonassignable unless expressly made so. The Petitioners have taken the quote completely out of context and have misinterpreted it.

The *Lane & Bodley* case is not applicable to an attempted transfer of an express patent license, whether or not in connection with a sale or purchase of other assets. It applies only when a shop right is involved and the claimant as "successor" is identical to the predecessor or maintains a continuity of identity with the predecessor through incorporation, reorganization, merger, consolidation, or

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similar device. The case has never been applied in circumstances such as the present. See, e.g., *Lane & Bodley Co.* v. *Locke,* 150 U.S. 193, 37 L. Ed. 1049 (1893) (A *shop right* passing from a partnership to a successor corporation formed of and by the same principals); *Neon Signal Devices* v. *Alpha-Claude Neon,* 54 F.2d 793 (D.C. Pa. 1931) (A *shop right* arising from the patentee's employment by both an original corporation and a successor corporation, the latter formed to take over the assets and the liabilities and continue the entire business of the original corporation, which ceased doing business completely); *Papazian* v. *American Steel and Wire Co.,* 155 F. Supp. 111 (E.D. Ohio 1957) (*Shop right* involved in merger); *Wilson* v. *J. G. Wilson Corp.,* 241 F. 494 (E.D. Va. 1917) (*Shop right* and successor corporation which only changed the name of predecessor corporation); *Gate-Way, Inc.* v. *Hillgren,* 82 F. Supp. 546 (S.D. Cal. 1949) (*Shop right* and clear distinction between "complete succession to the entire business" and "transfer" of the business.); *Lightner* v. *Railroad Company,* 1 Lowell 338, Fed. Case 8,343 (CC Mass. 1869) (A railroad company formed by the consolidation of two prior railroad companies). See also, *Dunkley Co.* v. *California Packing Co.,* 277 F. 996 (2d Cir. 1921); *Niagara Fire Extinguisher Co.* v. *Hibbard,* 179 F. 844 (7th Cir. 1910); *Hartford-Empire Co.* v. *Demuth Glass Works, Inc.,* 19 F. Supp. 626 (E.D. N.Y. 1937).

The present case does not involve a shop right, and Overhead is not a "successor" of Unarco; it did not continue the business of Unarco or assume its liabilities, and could not be considered the same entity. Rather, this was a sale and purchase of a license negotiated between two stranger corporations. Moreover, this was hardly the sale of an entire business, since Unarco sold to Overhead only the dockboard assets of the Sturdi Bilt division, "a relatively small part of its total business" (Supp. Stip. ¶1; R. 73-74). Unarco continued doing business as usual.

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Petitioners argue that this Court should re-examine the "19th Century cases" relied upon by the Court below in the light of modern business transactions, because these cases may jeopardize modern business acquisitions. However, this Court can assume that even "modern" business is run in accordance with established law. Only when businessmen attempt to circumvent the law and the rights of others by thinly disguised schemes such as utilized in this case will they run afoul of the law, and properly so.

Modern business needs do not require a change in the law. A patent license is nothing more than a waiver or a forebearance of a patentee's right to sue for infringement. The personal nature and aspects of a patent license today have their foundation in the constitutional provisions providing inventors temporary exclusive rights to their discoveries, just as in the 19th Century. U.S. Const. Art. I §8. The exclusive patent rights of the inventor include the concomitant right to choose in his complete discretion those to whom he shall extend rights under his patent monopoly. When the inventor intends to remain in business and utilize his own patent rights, by granting a patent license he chooses his competitor. The personal nature and the concept of the nonassignability of a patent license have developed from this inherent and basic monopolistic concept of federal patent law. It is not a general policy of "federal law" which establishes the nonassignability of contract rights in general. It is a *specific policy of federal patent law* dealing with federal patent rights.

Clearly, modern business is no more jeopardized by this decision than it is by the insertion of a provision of nonassignability in a license agreement. If assignability is desired by the parties to a transaction, it is something that

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should be bargained for and knowingly entered into. The present license agreement was not so entered into by Kelley. The business community should be entitled to, and in fact does, rely and depend upon the well established rule of nonassignability.

There are neither legal nor public policy considerations which would justify a grant of certiorari on the grounds set forth by Petitioners.

3. THE DECISION OF THE COURT OF APPEALS IS NOT IN CONFLICT WITH THE DECISION IN T. B. HARMS CO. v. ELISCU, 339 F.2d 823 (2d Cir. 1964), cert. denied, 381 U.S. 915 (1965).

The *Harms* decision deals only with a question of federal jurisdiction in the absence of diversity of citizenship, and is not in any manner in conflict with the decision of the Court of Appeals.

In fact, the *Harms* decision appears to go even further than the decision of the Court of Appeals in the present case, and in the same direction. Petitioners have either misread or failed to understand the case. The crucial issue was not "the validity of a purported assignment" (Pet. 14), but rather, "The crucial issue is whether or not Eliscu executed the assignment to Dreyfus . . ." 339 F.2d at 827. The Court held the issue to be one of contract law which, although involving a copyright, did not give rise to federal jurisdiction. (339 F.2d at 827-28).

The Court stated as follows:

> A new and dynamic doctrine, taking its name from *Clearfield Trust Co.* v. *United States,* 318 U.S. 363 (1943) instructs us that even in the absence of express statute, *federal law may govern what might seem an issue of local law because the federal interest is domi-*

sant (citing *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942)). . . . If this "federal common law" governed some disputed aspect of a claim to ownership of a copyright or for the enforcement of a license, federal jurisdiction might follow. . . . 339 F.2d at 828. [Emphasis added].

The holding of the Court is expressed as follows:

> We think that an action arises under the Copyright Act if and only if the complaint . . . at the very least and perhaps more doubtfully, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim. 339 F. 2d at 828.

There is no conflict between the decision of the Court of Appeals and the *Harms* decision which would justify the granting of a writ of certiorari in the present instance.

4. THE DECISION OF THE COURT OF APPEALS IS NOT IN CONFLICT WITH THE DECISION IN BRUNSWICK CORPORATION v. CHRYSLER CORPORATION, 408 F.2d 335 (7th Cir. 1969).

The Petitioners characterize the *Brunswick* case as establishing the principle that a purchaser of assets is bound *both* by a consent decree, binding on the seller, and any license arising from the settlement which lead to the decree. However, an examination of the record in the case discloses that no assignment of a patent license was even involved. In fact, the purchaser had purposefully chosen not to accept assignment of the license.

Specifically, the question presented for decision in the *Brunswick* case was whether a consent decree entered in patent infringement litigation constituted *res judicata* as between subsequent parties in interest. The Court stated: "We hold that by reason of the consent decree, the issues

of validity and infringement of Patents Nos. '007 and '226 were *res judicata* as to the West Bend Company and to others who may be in privity with that company." 408 F. 2d at 338. Then: "We must determine whether Chrysler has succeeded in interest to the subject matter of the prior decree." *Id.* The Court found that "Chrysler does stand in the shoes of the West Bend Company with respect to the decree." *Id.*

The holding of the Court was specifically limited to the subject matter of the consent decree and the question of *res judicata*. The case does not deal with the assignability of patent licenses, nor relate to the validity of an assignment of a license to a stranger corporation, nor does it hold that a purchaser of a business, by virtue of that alone, is entitled to assignment of patent licenses. *Clark* v. *Jones & Laughlin Steel Corp.*, 288 F.2d 279 (7th Cir. 1961), *cert. denied*, 368 U. S. 828 (1961), also cited by Petitioners, is to the same effect in that it deals with principles of *res judicata*, and not the assignment of patent licenses.

Again, there is no conflict between these decisions and that of the Court of Appeals which would form a basis for issuance of a writ of certiorari.

CONCLUSION

The Petition for a Writ of Certiorari to review the Judgment of the Court of Appeals for the Seventh Circuit should be denied for the reason that the Petitioners have not substantiated any reason justifying issuance of a writ of certiorari by this Court.

Respectfully submitted,

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